

Item: 05

Community Development Fund Sub-committee: 6 November 2023.

Regeneration Capital Grant Fund – Stage 2 Funding Application.

Pier Arts Centre.

Report by Corporate Director for Enterprise and Sustainable Regeneration.

1. Purpose of Report

To consider a request to submit a stage 2 funding application to the Regeneration Capital Grant Fund (RCGF) on behalf of the Pier Arts Centre.

2. Recommendations

The Sub-committee is invited to note:

2.1.

That, on 15 June 2023, the Community Development Fund Sub-committee resolved:

- That the Council should submit Stage 1 funding applications to the Scottish Government Regeneration Capital Grant Fund, on behalf of both the Pier Arts Centre and Birsay Heritage Trust.
- That, in accordance with the Regeneration Capital Grant Fund guidelines, the applications be ranked in the following priority order:
 - Priority 1: Pier Arts Centre, at the requested amount of £1,608,000.
 - Priority 2: Birsay Heritage Trust, at the requested amount of £760,000.

2.2.

That, on 28 September 2023, the Scottish Government confirmed that the Regeneration Capital Grant Fund Investment Panel had recommended that the Pier Arts Centre's Stromness Creative Arts Hub project be invited to submit a Stage 2 application by the deadline of 10 November 2023.

It is recommended:

2.3.

That the Council should submit a Stage 2 funding application to the Scottish Government Regeneration Capital Grant Fund, on behalf of the Pier Arts Centre, at the requested amount of £1,608,000.

3. Background

3.1.

There are a number of grant funds to which only local authorities, or only when involving local authorities, can apply such as the Rural Tourism Infrastructure Fund, as well as the Regeneration Capital Grant Fund (RCGF).

3.2.

On 22 June 2021, when considering a draft framework that would allow the Council to submit applications on behalf of community organisations to funding schemes that were only open to local authorities, the Policy and Resources Committee recommended:

- That the Third Party Funding Applications Framework be approved.
- That powers be delegated to the Community Development Fund Sub-committee to determine requests to the Council to submit funding applications on behalf of a third party.

3.3.

The Third Party Funding Applications Framework includes a condition that the Council will support third party applications for grants up to a maximum of £1,000,000 for a single project. This condition was included in order to minimise risk to the Council of a third party defaulting on their grant award. Despite that, the Council is not precluded from supporting the submission of a third party application to RCGF for more than £1,000,000 if it is deemed desirable to do so, as was the case during last year's Round 10 RCGF submissions.

3.4.

Last year, due to impractical timescales and submission deadline. it was not possible to convene a meeting of the Community Development Fund Sub-committee in time prior to the Stage 2 submission deadline. Following a recommendation from the Corporate Leadership Team, in October 2022, the Chief Executive exercised emergency powers and authorised the submission of Stage 2 Regeneration Capital Grant Fund (RCGF) applications on behalf of the Pier Arts Centre and Birsay Heritage Trust.

3.5.

The Council was notified on 17 January 2023 that the Stage 2 RCGF Round 10 application on behalf of the Pier Arts Centre had not been successful.

3.6.

Round 11 RCGF opened in April 2023 and, on 15 June 2023, the Community Development Fund Sub-committee resolved:

- That the Council should submit Stage 1 funding applications to the Scottish Government Regeneration Capital Grant Fund, on behalf of both the Pier Arts Centre and Birsay Heritage Trust.
- That, in accordance with the Regeneration Capital Grant Fund guidelines, the applications be ranked in the following priority order:
 - Priority 1: Pier Arts Centre, at the requested amount of £1,608,000.
 - Priority 2: Birsay Heritage Trust, at the requested amount of £760,000.

3.7.

On 28 September 2023, the Scottish Government confirmed that only the Pier Arts Centre's Stromness Creative Arts Hub project had been recommended by the RCGF Investment panel to be invited to submit a stage 2 application by the deadline of 10 November 2023.

3.8.

The RCGF is a competitive fund and is typically oversubscribed at all stages.

4. Pier Arts Centre, Stromness Creative Arts Hub

4.1.

As stated in section 3 above, the Pier Arts Centre's Stage 2 RCGF application submitted in October 2022 was not successful. The RCGF assessment panel raised questions about viability and deliverability of the project in the required timescale for the 2023/24 funding round, also noting that RCGF primarily supports construction costs rather than extensive enabling works (e.g. project design fees). The Pier Arts Centre has attempted to address the feedback in its current submission.

4.2.

The project intends to provide a creative arts hub in the former Stromness Post Office, bringing back into use a prominent derelict building on the town's main street.

4.3.

In 2015, the Pier Arts Centre acquired the former Stromness Post Office, as a means to enhance and complement its existing provision. A feasibility study and options appraisal has helped to shape the suite of works proposed under this project.

4.4.

The project will involve partial demolition and refurbishment of the former Stromness Post Office, creating a space to provide new high-level artistic and creative opportunities in Orkney. It is intended to be delivered between 2024 and 2026.

4.5.

The new facility will help the Pier Arts Centre to diversify its income streams through increased commercial activity. These activities will boost footfall and engender further commercial enterprise within the town centre. Specifically, the Stromness Creative Arts Hub will provide the following:

- Creative arts and culture programmes.
- Seasonal art schools for art colleges as well as the public.
- Arts venues for hire.
- Short-term residency accommodation.
- Space for community and festival use.

4.6.

It is anticipated that the following objectives will be achieved:

- Bring a prominent derelict building, adversely impacting the main street, back into use.
- Provide dedicated creative and learning spaces for use by the community, schools, students, professional and amateur artists, and visitors to Orkney.
- Provide participatory creative and artistic activities for local people and for the rapidly rebounding tourism market.
- Provide short-term residential facilities for artists and performers.

4.7.

Since the previous RCGF submissions, two key sources of funding commitment are confirmed under UK Shared Prosperity Fund (UKSPF) and Islands Deal agreements with UK and Scottish Governments. The Islands Deal contribution is subject to the final approval of a Full Business Case in respect of a wider Creative Islands Partnership and Asset Development Programme. At present, none of the other potential additional sources of funding have been secured but conversations have been ongoing and so decisions remain pending. The table below outlines the project costs and proposed funding package:

Project Details.	Cost.
Project Costs.	£4,288,857.
Project Financing pending.	Amount.
UK Shared Prosperity Fund (allocated).	£405,532.
Islands Deal (allocated).	£1,214,000.
Regeneration Capital Grant Fund.	£1,608,000.
OIC.	£655,900.
HIE.	£405,425.
Total.	£4,288,857.

4.8.

As outlined in section 3.3 above, the Council's Third Party Funding Applications Framework includes a condition that the Council will support third party applications for grants up to a maximum of £1,000,000 for a single project. In June 2023, the Community Development Fund Sub-committee agreed to support the full grant request of £1,608,000. In this particular case, it is worth again noting that a funding application for the full requested amount would enable the RCGF to become the main funder for the project, providing the opportunity for securing a significant amount of external funding, as well as reducing the requirement for the Pier Arts Centre to identify additional match funders.

5. Application Appraisal

5.1.

Project costs have been estimated at £4,288,857 over two years and PAC is seeking to secure £1,608,000 grant funding from the RCGF towards that cost. A financial summary is set out below:

Spend	2024/25	2025/26	Total
Total Capital Expenditure	£2,022,196	£2,266,661	£4,288,857
Funded by:			
RCGF	£608,000	£1,000,000	£1,608,000
Match funding	£1,414,196	£1,266,661	£2,680,857

5.2.

Match funding amounting to £1,619,532 has provisionally agreed through Islands Deal and UK Shared Prosperity Fund contributions. This leaves £1,061,325 match funding to be confirmed. An application is in with Highlands and Islands Enterprise for £405,425, with a decision expected soon. The remaining £655,900 may be requested from the Council and/or alternative external funders. It is not yet known where the final amount requested from within the Council will be sourced, or whether it will be from Council funds or external funds which the Council has responsibility for disseminating.

5.3.

The Pier Arts Centre has outlined that this project is responding to demand experienced by the centre. The demand for creative facilities arises from individual practitioners, artists groups, network peers and the academic sector out with Orkney, and from an ambitious local creative sector. Similarly, audience demand for participatory and educational activities has grown in line with Orkney's visitor economy.

5.4.

As confirmed by the successful examination at Stage 1, the project proposal meets the eligibility criteria specified by the funder and demonstrates significant pre-project planning and preparation, including the production of a development plan, partially securing match funding, procuring a design team, and establishing key project tasks/milestones.

5.5.

Following the meeting of the Stage 1 assessment panel in August, feedback was provided, and the Pier Arts Centre intends to address each point in the final application. A final version was still being worked on at time of report writing. There are not however expected to be any material changes to the financial implications noted in paragraph 4.6 and the stage 2 application is expected to be strengthened by addressing each point of feedback.

5.6.

Not all of the required match funding has been confirmed and this does represent a financial risk. The RCGF Assessment Panel might seek further information from the funding providers and/or the project delivery organisation. Increases in the cost of construction materials might also be of some concern.

5.7.

The implications for the Pier Arts Centre if they miss the current window would be that this is the only opportunity they will have to apply for RCGF until June 2024, assuming another round is made available then.

5.8.

Having been through previous rounds with full support from the Council, the application is considered well researched, and it is recommended that the updated round 11 RCGF application is supported.

6. Subsidy Control

6.1.

In providing financial assistance to enterprises, the Council must ensure that it does not breach rules on subsidy control (formerly state aid). These rules are designed to ensure that state resources do not distort competition or give an unfair advantage by favouring certain enterprises.

6.2.

A preliminary assessment of the support being recommended in this report suggests that it may constitute a subsidy under Section 2 of the Subsidy Control Act 2022 ("the Act"). If the support does constitute a subsidy, then it will require to be taken forward in compliance with the UK Subsidy Control rules and requirements laid out in the Act.

7. Corporate Governance

This report relates to the Council complying with governance and procedural issues and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

8. Financial Implications

8.1.

The principal reason why the Council established the third party framework was to enable the submission of applications on behalf of community organisations to funding schemes that are only open to local authorities and to widen the possible funding routes for local projects and maximise external funding opportunities.

8.2.

There are potential financial risks associated with accessing funding on behalf of third party organisations with the most obvious risk that of default on the grant conditions by the third party, leaving the Council liable for repayment of the grant.

8.3.

The financial details of the proposed project are summarised in sections 4 to 5 above, with total estimated capital costs of £4,288,857, seeking RCGF funding totalling £1,608,000 and match funding of £2,680,857. With only some of the match funding totals identified to date there is a risk that the balance will be difficult to secure although potential sources have been identified. A further risk faced by this

and every other building projects currently at the planning stage is that of construction cost inflation and challenges in procuring contractors.

8.4.

An administrative burden will be established if the grant application made on behalf of the Pier Arts Centre is successful. The Council will require to remain involved in the projects to ensure that the grant conditions are fully discharged.

8.5.

Should the applicant be successful in securing a grant through the RCGF, this does not guarantee any other level of financial contribution or support from the Council.

9. Legal Aspects

9.1.

In order to claim grant monies, whether or not on behalf of a third party, the Council will be required to adhere to the funder's grant conditions.

9.2.

In circumstances where the Council agrees to enter into a funding agreement on behalf of a third party, the Council's position will require to be protected by the third party entering into an agreement with the Council on terms mirroring the Council's agreement with the funder in respect of the relevant grant monies, including provisions for the Council's remedy in the event of a third party defaulting on the grant conditions.

10. Contact Officers

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